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BY THE COMPTROLLER GENERAL  
Report To The Chairman,  
Legislation And National Security Subcommittee,  
Committee On Government Operations  
House Of Representatives  
OF THE UNITED STATES

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## Impact Of Administrative Budget Procedures On Independence Of Offices Of Inspector General

The statutory inspectors general utilize the administrative budget procedures of their respective agencies in requesting inspector general staff and funding resources. GAO analyzed the procedures used by 17 statutory inspectors general, and identified ways in which the budget process should be modified to enhance the independence of the inspectors general. GAO recommends agency heads establish procedures to clearly reflect that ultimate decisionmaking on the budgets for the offices of inspector general is restricted to themselves, or their deputies. GAO also recommends congressional authorizing and appropriations committees specify a funding floor for offices of inspector general receiving their funds in commingled accounts, and the committees request that each inspector general testify before the Congress in support of his or her budget request for the office of inspector general.



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COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON D.C. 20548

B-216131

The Honorable Jack Brooks  
Chairman, Legislation and  
National Security Subcommittee  
Committee on Government Operations  
House of Representatives

Dear Mr. Chairman:

In September 1983 you asked 17 statutory inspectors general (IGs) to describe their agencies' budget procedures, and outline the step-by-step process used to determine IG staff size and funding resources. In November 1983 you asked us to analyze the IGs' responses to determine whether administrative budget procedures may limit the IGs' independence. After discussing our analysis with your staff, we agreed to survey the 17 agencies to obtain further detail on their budget processes.

In our review we identified ways in which the budget process should be modified to strengthen the IGs' independence.

Objective, Scope and Methodology

Our review's objective was to learn about the budget and funding processes for the 17 offices of inspector general (OIGs) and to determine if these processes have the potential to affect OIG independence. We conducted our review from January 1984 to July 1984 at the OIGs of the Agency for International Development, General Services Administration, Small Business Administration, National Aeronautics and Space Administration, Environmental Protection Agency, Veterans Administration, and the Departments of Commerce, Health and Human Services, Labor, State, the Interior, Education, Housing and Urban Development, Defense, Transportation, Energy and Agriculture.

Before visiting the agencies, we analyzed the material sent to you by each IG in response to your request for information on agency budget procedures. We met with each agency's IG and staff to document the budget process and to obtain their opinions on the effect of the process on OIG independence. We also interviewed

agency officials who review the OIG budget request about their role and how the OIG budget is changed. Finally, we met with budget analysts from the Office of Management and Budget (OMB) to discuss their role in the review process.

We did not develop any evidence that the current procedures have specifically prevented IGs from conducting audits or investigations they deemed necessary. This review was conducted in accordance with generally accepted government auditing standards, except that we did not obtain agency comments.

### INDEPENDENCE OF IGs

The OIGs in the 17 agencies were established under the Inspector General Act of 1978, subsequent amendments, or other legislation. The intent of the legislation was to create independent and objective units that would conduct and supervise audits and investigations of agency programs and operations. Under the legislation, IGs report to the agency head and receive general supervision from that person or, to the extent delegated, the official next in rank below the agency head. Generally, the legislation prohibits these two officials from preventing any IG audit or investigation. The IGs are required to report semiannually to the Congress (annually for the Department of State) summarizing OIG activities.

OIGs are required to comply with the Comptroller General's Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, which cite independence as one of the four general standards for audit organizations. In all matters relating to the audit work, the standards state that the audit organization

- must be free from external impairments to independence,
- should be organizationally independent, and
- shall maintain the appearance of independence.

The audit organization's independence is imperative so that opinions, conclusions, judgments, and recommendations will be impartial and will be viewed as impartial by knowledgeable third parties.

The legislation contains no provisions about how OIGs obtain staffing or budget authority. Consequently, OIGs follow their agencies' budget procedures and are one component of the agencies' requests to OMB and the Congress. Within the framework of the IG legislation, budget decisions motivated by overall budgetary constraints may properly have an impact on OIG resources. There must be, however, a degree of independence for OIGs to conduct those audits and engage in those activities reasonably required to fulfill their statutory responsibilities.

FOUR AGENCIES RESTRICT OIG BUDGET REQUESTS

As part of their normal budget process, four agencies--the Departments of Health and Human Services and Labor, the Agency for International Development and the National Aeronautics and Space Administration--imposed ceilings for staffing, budget authority, or both in budget instructions to their OIGs. These agencies instructed their IGs not to exceed these ceilings in their budget requests. Four other agencies--the Departments of the Interior, Defense and Energy, and the Environmental Protection Agency--gave target figures to their OIGs that they could exceed with adequate justification. In contrast, nine agencies do not restrict the OIG budget request. These OIGs used vulnerability studies, needs assessments, and professional judgment to prepare their budget requests.

Instructions that predetermine the maximum amount of resources OIGs can request may prevent them from identifying and receiving the minimum level of resources they need to meet their audit and investigation responsibilities. We believe procedures that allow IGs to present and justify their desired budget enable them to request and advocate more strongly for needed resources. These procedures would enhance the IGs' independence.

AGENCY REVIEW PROCESS HAS POTENTIAL FOR IMPAIRING OIG INDEPENDENCE

In hearings last year, the Senate Appropriations Committee expressed concern that the budget for the IG at the General Services Administration (GSA) had been reviewed by a Budget Review Board that included GSA program administrators whose operations were under IG audit or investigation. Senate report 98-186 stated:

"...the Committee believes that to ask a panel of GSA officials whose programs and operations are and could, in the future, be the subject of regular investigation by the Inspector General, to pass judgment on the OIG budget is inappropriate and borders on a conflict of interest. . . .

"The Inspector General should have to justify every dollar that is requested for his programs before the appropriate budget officials, but not before a panel consisting of on-line program administrators whose operations are constantly reviewed by the Inspector General. . . .

"Therefore, the Committee recommends that the Administrator of GSA reconsider his decision to subject the Office of Inspector General budget to review by a GSA review board. . . ."

Following are examples at two agencies of current procedures for the fiscal year 1985 OIG budget review that are somewhat similar to the GSA process:

The Department of Commerce OIG requested a budget increase of \$700,000 and 12 more staff members to expand audits of automated data processing (ADP) systems in fiscal year 1985. The OIG cited the need for a more independent approach to auditing over 900 ADP systems in the Department that cost over \$200 million annually to operate. After Commerce's budget office analyzed the OIG budget request, it submitted its analysis to the Deputy Secretary through the Assistant Secretary for Administration, who directs the Office of Information Resource Management which audits ADP systems. Based on this analysis, the Deputy Secretary denied the OIG's requested increase in resources for ADP audits. The appearance of a conflict of interest could be created by the Assistant Secretary having the authority to influence the level of OIG resources for ADP audits while also having certain ADP program responsibilities.

A similar situation occurred at the Veterans Administration (VA). The Office of Program Planning and Evaluation (OPPE) analyzed the OIG budget request as part of the VA long-range plan for fiscal years 1985-89. OPPE said OIG resources could be held at the 1984 level if OPPE was given responsibility for certain evaluation efforts. OPPE is part of the VA management and administration budget account, which also includes the OIG's funding and competes with the OIG for resources. The appearance of a conflict of interest could be created by having an office in a position to influence OIG resources which also competes with the OIG for resources.

In these examples, while the motivation may have been economic and efficient agency operations, we believe they create the appearance of a compromise in OIG independence if it is not clear that the decision has been made by the agency head only after full consideration has been given to the OIG's original request.

Nine agencies subject the OIG budget request to multiple layers of review or review by a panel of agency officials. Program officials who are subject to OIG audit and investigation, or compete with the OIG for resources, or both, participate in review processes making recommendations on OIG resource levels. Such budget review processes could create the appearance of a conflict of interest as addressed by the Senate Appropriations Committee.

To ensure informed decisionmaking, the agency heads should be free to solicit information and advice from various agency sources. We believe that when agency heads make decisions on the OIGs' budgets, they should personally review the OIGs' proposed budgets, along with any comments of other organizational entities, rather than reviewing OIG budgets that have already been modified by these entities. This will ensure that agency heads are clearly restricting actual decisionmaking on the OIG budget to themselves or their immediate deputies.

In contrast to the previous examples, under the Department of Transportation's procedures the OIG budget is submitted directly to the agency head, then to OMB without additional agency review. In our opinion, this procedure enhances the appearance of independence.

REPROGRAMMING OF FUNDS COULD  
INTERFERE WITH OIG OPERATIONS

OIGs receive funds either through separate appropriation accounts or as funds commingled in accounts with other agency activities. Seven statutory IGs receive their funds from separate appropriation accounts. Under such provisions, agency management cannot transfer funds into or out of the OIG's account without statutory authority. In addition, the agency is required to allot funds according to the final appropriation decision. IGs who have separate appropriation accounts believe these accounts enhance the appearance of independence.

The other 10 IGs receive their funds commingled with funds for other agency activities. When OIG funds are appropriated as part of larger accounts, the agency is not legally bound to allot funds to each office in the proportions identified in the budget request, and can reprogram funds among the various offices within the account. Reprogramming can work to the advantage of the OIG by resulting in additional funding for OIG operations. IGs who operate from these accounts prefer to ask their agencies for additional funds during the fiscal year rather than request a supplemental appropriation from the Congress. However, reprogramming which results in decreased OIG funding creates an opportunity for impairing OIG independence by restricting the OIG's resources.

A recent decision at the Agency for International Development (AID) demonstrates the vulnerability of commingled funds to agency control. To finance the reassignment of IG staff from Washington, D.C. to Honduras, the AID IG proposed the use of \$500,000 of IG funds budgeted for contracting services in Cairo, Egypt. The AID Controller, who approves all budget actions of this type, did not approve the IG's request. According to the Controller, the IG needed to make a more precise cost estimate before relocation could be approved. The Controller reduced the OIG budget by reprogramming the \$500,000 from the OIG budget to other agency activities.

Three other OIGs in the commingled funds category also had funds reprogrammed out of their budget in recent years. While we recognize that the motivation for reprogramming may be for economic and efficient agency operations, such reprogramming actions illustrate the potential vulnerability of the OIG budget when OIG funds are appropriated as a part of a larger appropriation.

We believe funding procedures such as separate appropriations, or appropriation language establishing minimum funding levels (floors), provide OIGs with a greater degree of control over their resources after final appropriations are enacted, and enhance the appearance of OIG independence.

INCREASED ACCESS TO THE CONGRESS  
WOULD FURTHER OIG INDEPENDENCE

The current budget procedures for IGs with commingled funds provide these IGs only limited means of communicating their resource needs to OMB and the Congress. Under the current process, agency budgets submitted to OMB do not always reflect OIG requests and IGs do not always have the opportunity to present their needs before the Congress.

When an agency reduces an OIG budget request and submits the revised request to OMB, OMB is not routinely told the level of the OIG's original request. OMB examiners may constrain the OIG's capabilities by reducing the request without knowing whether or not the agencies have already reduced the OIG request. The amount of funding ultimately appropriated for OIGs depends on legislative action taken on OMB's submission to the Congress.

IGs at agencies with commingled funding do not necessarily testify before the Appropriations Committees. These IGs may be represented by an assistant secretary during the appropriations hearings and, consequently, do not have the opportunity to address their needs directly before the Congress or to respond to congressional inquiries.

The constraints on OIG resources are having an impact on audits and investigations. Some OIGs have made their position clear in internal agency documents, but the budget process does not always allow them to effectively communicate these needs to OMB, the Congress, or both.

For instance, the budget request by the Small Business Administration's (SBA's) OIG to the agency for fiscal year 1985 cited the following conditions:

"At the current (resource) level, the OIG cannot sustain operations at the present levels. We are not meeting the statutorily required 1-year audits of SBICs (Small Business Investment Companies) . . . While we do not believe there has been a substantial violation of the statutory requirement for 'annual examinations' or a violation of the spirit of the law, the current trend, . . . in our opinion is likely to generate such in the near future. We have not been able to establish a periodic examination program for the more than 300 non-bank lender and 400 certified development companies, as required by statute. Neither sureties nor surety bond claims have been examined/audited for over two years."

The OIG requested a staff increase from 130 full-time permanent staff positions in fiscal year 1984 to 206 full-time positions for 1985. The SBA Administrator forwarded a request to OMB for 192

full-time permanent OIG positions. When the agency budget was submitted by OMB to the Congress, the request was reduced to the fiscal year 1984 level, and there is no indication in the budget process that the Congress was aware of such a reduction.

The National Aeronautics and Space Administration (NASA) IG has expressed concern within the agency that the OIG is receiving a disproportionate share of reductions in NASA staff. The IG requested 10 more full-time permanent staff positions during fiscal year 1984, raising the number of full-time staff positions from 97 to 107. At one point in the justification, the IG noted that between 1981 and 1984 NASA's agencywide staff level had been reduced by 6 percent. Most of this reduction was made in NASA headquarters, which was reduced by 10 percent. However, the OIG, which is part of the headquarters staff, had been reduced by 15 percent during the same time period. The request for the increased staff level was denied within the agency and again the budget process gives no indication that the Congress was aware of such a reduction.

Since the SBA and NASA IGs do not testify before the Congress, the budget process does not ensure that the Congress will know about their resource requests or shortfalls.

#### CONCLUSIONS AND RECOMMENDATIONS

Administrative procedures used by agencies to determine IG staffing and budget levels must provide the IGs with the opportunity to request and advocate for needed resources. The legislation establishing OIGs gave extensive consideration to balancing OIG independence and agency management's needs. The legislation, by requiring IGs to report directly to agency heads or their deputies, sought to ensure independence by placing IGs at a sufficiently high organizational level to make certain they are insulated against internal agency pressures.

Agency budget processes that, in effect, may delegate decisions on IG resource levels below the agency head or deputy can appear to be an impairment to OIG independence, especially where there is a conflict of interest. In addition, OIG independence can appear to be impaired when agencies can easily reprogram OIG funds to other agency operations. Finally, because IGs are not always given the opportunity to present and justify their resource needs to OMB and the Congress, OMB and the Congress are not fully aware of those needs.

When agency heads are deciding OIG budget and staffing levels, they should have the freedom to obtain advice and counsel from other agency officials. However, we believe that, to protect OIG independence, agency heads (or deputies) should receive the IGs' unmodified budget requests in addition to any advice to clearly reflect that the decisionmaking authority on those budget requests is restricted to themselves. We also believe processes should be established restricting the amount of OIG funding reductions that

agencies can make after the enactment of final appropriations. Finally, we believe IGs should be given the opportunity to inform the Congress about the impact of agency and OMB budget decisions.

To enhance OIG independence, we recommend

--secretaries/administrators, or their deputies, in agencies with statutory IGs, should have the IGs' unmodified budget requests, as well as any advice and counsel provided by other agency officials, to clearly reflect that ultimate decisionmaking on the OIG budget is restricted to themselves.

We also recommend

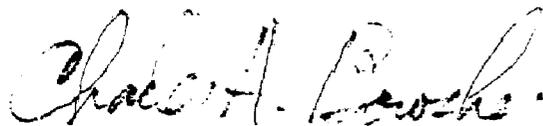
--congressional appropriations and authorizing committees specify a funding floor for OIG activities in appropriations where OIGs' funds are commingled with funds for other activities and

--the committees request that each IG testify before the Congress in support of his or her OIG budget request.

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As arranged with your office, we plan no further distribution of this report until 30 days from its issue date, unless you publicly announce its contents earlier. At that time we will send copies to the OMB Director, agency heads with statutory IGs, and other interested parties. Copies will be made available to others upon request.

Sincerely yours,



Comptroller General  
of the United States

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